

Qualification; voluntary employees' beneficiary association; one employee member. A trust created to provide life, sick, accident, and other benefits to only one employee does not qualify for exemption under section 501(c)(9) of the Code.

ISSUE

Does a trust that provides life, sick, accident, and other benefits to one employee qualify for exemption from federal income tax under section 501(c)(9) of the Internal Revenue Code?

FACTS

The trust was created for the purpose of providing life, sick, accident, and other benefits to its members. All employees of a specified professional corporation are eligible to be members. However, the professional corporation has only one employee, a dentist, who is also a shareholder and an officer of the corporation. The trust's income is derived from contributions by the professional corporation and from investment income. Disbursements are for benefits and administrative costs.

LAW AND ANALYSIS

Section 501(c)(9) of the Code provides for the exemption from federal income tax of voluntary employee's beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or designated beneficiaries, if no part of the net earnings of such association inures (other than through such payments) to the benefit of any private shareholder or individual.

Section 1.501(c)(9)-1 of the Income Tax Regulations provides that to be described in section 501(c)(9) of the Code an organization must be an employee's association.

Section 1.501(c)(9)-2(a)(1) of the regulations provides that the membership of an organization described in section 501(c)(9) of the Code must consist of individuals who become entitled to participate by reason of their being employees and whose eligibility for membership is defined by reference to objective standards that constitute an employment-related common bond among such individuals.

In order to qualify for exemption as a voluntary employees' beneficiary association under section 501(c)(9) of the Code, an organization must be an employees' association, and its membership must consist of individuals sharing an employment-related common bond. The requirement that an organization be an employees' association indicates that the organization must be formed on behalf of employees who associate

together to receive the benefits provided by the organization. An organization with only a single employee member does not meet this requirement.

HOLDING

A trust that provides life, sick, accident, and other benefits to one employee does not qualify for exemption from federal income tax as a voluntary employees' beneficiary association under section 501(c)(9) of the Code.